Unique Financial Services
AFSC
70th anniversary
1938 2008

Annual Report 2007-2008

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May 31, 2008

The Honourable George Groeneveld
Minister of Agriculture and Food
424 Legislature Building
Edmonton, Alberta
T5K 2B6

Dear Minister Groeneveld:

On behalf of the Board of Directors, we are pleased to submit the thirteenth annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c. A-12) the report contains a summary of the transactions and affairs of the corporation, its revenues and the application of its expenditures for the fiscal year ended March 31, 2008. The report also contains audited financial statements, including a statement of financial position, a statement of operations, and a statement of cash flows.

Yours truly,

H.D. (Harry) Haney	Brad Klak
Chairman	President & Managing Director

Message from Minister Groeneveld

A year of changes

It is my pleasure to serve the people of Alberta for another term as Minister of Agriculture and Rural Development. Farming and agriculture are close to my heart and I am determined to keep the entire agriculture and food industry as a major player in Alberta's marketplace. The last year brought forth a number of surprises within the agriculture industry - from soaring commodity prices, to plummeting prices of livestock and record-breaking hailstorms. A strong Canadian dollar, as well as increased costs for feed, fertilizer and fuel, also had a significant impact on the livestock industry. Currently, the Government of Alberta is working with producers and commodity groups to help them find long-term solutions and alternative markets.

Agriculture Financial Services Corporation (AFSC) took a lead role and found ways to respond to the needs of producers through a made-in-Alberta solution: the Alberta Farm Recovery Plan (AFRP) launched in October 2007. Its goal was to ease the financial burden of many producers, allowing them time to adjust to current market realities, and open discussions regarding the direction and future of agriculture in Alberta. The industry is now in the process of completing its long-term transformation plan for establishing a viable and vibrant agriculture sector.

On March 31, 2008, we saw the expiration of the national Agriculture Policy Framework (APF) under which we have been operating for the past five years. Transitioning from the APF to a new national agreement entitled Growing Forward has occupied a lot of my time this year, as well as that of AFSC and Agriculture and Rural Development representatives. The Growing Forward agreement, which was signed by Federal, Provincial and Territorial Ministers of Agriculture in Quebec City on July 14, 2008, has three policy outcomes: a Competitive and Innovative Sector, a Sector that Contributes to Society's Priorities, and a Sector that is Proactive in Managing Risks. AFSC has invested significant time and effort to the risk management policy outcomes mentioned above. This managing risk theme is contained in a suite of Business Risk Management (BRM) products known as AgriStability, AgriInvest, AgriInsurance and AgriRecovery.

Producers and the Government of Alberta have long been asking for programs that are simple, responsive, predictable and bankable. While this suite of BRM programs made some progress in partially reaching this goal, we feel that it hasn't gone far enough and

improvements are needed. At the insistence of Alberta, a federal-provincial-territorial team is now completing a strategic review of Growing Forward's suite of BRM programs. AFSC will play a key role in ensuring that the voices of Albertans are heard through this strategic review so that programs react appropriately to longer-term emerging issues, while having a positive impact on the agriculture industry.

In 2008, I hope that we see the livestock sector start to flourish again, while ensuring the crop sector remains strong. I want to see balance and profitability return to all producers – regardless of the commodity they sell. I feel confident in AFSC and its response to arising issues after seeing the job they continue to do for producers. One thing I know for certain is that regardless of the situation, you have my support of and my commitment to Alberta's agriculture industry.

George Groeneveld

George Groeneveld
Minister of Agriculture and Rural Development

CHAIRMAN'S MESSAGE

The ebb and flow of life at Agriculture Financial Services Corporation (AFSC) has brought us a mixture of blessings and challenges in the 2007-08 year. We saw producers experience strong yields, even with the frequent and widespread hail damage. Alberta grain and oilseed producers benefitted significantly from near record prices for their crops, as well as from increased claim payments, which reflected the strong commodity prices. Unfortunately, many livestock producers struggled this year. They saw input costs skyrocket and prices moderate, resulting in drastically reduced margins. The Board of Directors was impressed with the creativity AFSC management demonstrated to help address the challenges.

Changes took place on the Board of Directors, as we said goodbye to Mr. Gerard Oosterhuis and Mr. Wayne Wagner. On behalf of the Board, I would like to extend my appreciation to these gentlemen for their excellent service and commitment to AFSC. We were able to welcome four new members – Mr. Tony Yelenik and Mr. Ken Skoberg in May 2007, and Mr. Kim McConnell and Mr. John Van Tryp in January 2008. I can say they are a great addition and fit for our AFSC Board of Directors. Given the short time some of these individuals have sat on the board, it is impressive to see how engaged they have become.

We were very pleased to see Honourable George Groeneveld renamed Minister of Agriculture and Rural Development (ARD) after the provincial election in March. Minister Groeneveld's wisdom and experience will help drive and define Alberta's agriculture industry and the programs and vision for the future.

AFSC's Board of Directors made several adjustments to its committees, in order to address the changes both within the corporation and also society at large. With a large portion of today's employees approaching retirement age we have had to focus on ways to retain staff, and further recruit new employees in a market where quality and qualified people can be difficult to find. To address these issues, we expanded the focus of the Governance Committee, which is now known as the Governance and Human Resources Committee.

AFSC continues to review its focus on the needs expressed by clients through client satisfaction surveys, workshops and day-to-day interactions, to ensure the programs and technology available are responsive to Alberta's ever-changing agricultural and commercial sectors. This year, the Board provided direction in several key areas, such as:

- Focusing on the long-standing desire of producers for an insurance program that has more comprehensive coverage and suits their individual needs;
- Proactively addressing challenges in the agriculture industry and the livestock industry through ad hoc programs; and,
- Supporting made-in-Alberta solutions to add value to the products of primary producers by offering programs that meet the requirements of the value-added sector.

To address our evolving society, which is constantly searching for efficient tools to speed up processes, there is an increased need for technological advances. We have focused on ways in which to leverage technology and to improve our processes, allowing a multitude of ways to deliver services both internally and externally. We will continue to support efforts to move in this direction as we look into the 2008-09 year and beyond.

With the many changes happening within the agriculture industry and throughout the corporation, I am looking forward to helping guide AFSC into the next year and beyond. The Board of Directors is impressed with and supports the initiatives AFSC has taken to benefit the corporation and our clients. The leadership displayed reflects the highest quality, and exemplifies the kind of work ethic that we encourage and model for all our employees.

H. D. (Harry) Haney
Chairman

As a provincial Crown corporation, AFSC serves in a public policy role for the Government of Alberta. The Board of Directors provides leadership and direction to the corporation and oversees management and performance.

Mandate

The Board is responsible to the Minister of Alberta Agriculture and Rural Development. The roles and responsibilities of the Board are set out in the Agriculture Financial Services Act and in a Memorandum of Understanding (MOU) between the Minister and the Board, which is updated annually.

Meetings Attended (For the Fiscal Year 2007/08)		
	Committee Meetings	Board Meetings
Barry Holmes	27 of 28	8 of 8
Brad Klak	22 of 24	8 of 8
Gail Surkan	15 of 16	7 of 8
Gerard Oosterhuis*	7 of 7	7 of 7
H.D. (Harry) Haney	19 of 19	8 of 8
Joe Makowecki	17 of 19	8 of 8
John Van Tryp*	3 of 3	3 of 3
Ken Skoberg*	14 of 14	8 of 8
Kim McConnell*	3 of 3	3 of 3
Tony Yelenik*	12 of 14	6 of 8
Wayne Wagner*	7 of 7	2 of 2
* was a Board member for part of this year		

Composition of the Board

As of March 31, 2008, the Board consisted of nine directors. There are eight independent directors and the President and Managing Director. The Minister of Agriculture and Rural Development appoints all Board members. The Board members have varied skills and experience and are entrepreneurs, primary agricultural producers, and agri-business owners/operators. The Board Chair and Committee Chairs are independent members.

Governance

The Board members adhere to the Board Governance Handbook. New Board members are provided orientation as soon as they assume their duties. The Board Code of Conduct and Ethics is reviewed annually, with each Board member annually confirming compliance. The Board, its Committees and individual Board members assess its performance annually through a structured process of self-evaluation. The Board continually identifies areas of potential development to enhance effectiveness in governance and in pursuing strategies to achieve continuous improvement.

The Board and Committees meet as often as required, as well as hold in-camera sessions. The Board ensures that public policy is considered in all decisions. Board members also participate in seminars and conferences to further enhance their skills in dealing with corporate business issues and governance.

Board Committee Membership & Responsibilities as of May 30, 2008

Minister of Agriculture and Food:

Honourable George Groeneveld

AFSC Board of Directors:

CHAIR: H.D. (Harry) Haney
Barry Holmes
Brad Klak
Joe Makowecki
John Van Tryp
Ken Skoberg
Gail Surkan
Kim McConnell
Tony Yelenik

AFSC Directors' Responsibilities:

- Corporate Stewardship
- Strategic Management
- Enterprise Risk Management
- Fiscal Responsibilities and Financial Reporting
- Integrity and Ethical Conduct
- Communication with Stakeholders

Governance & Human Resources Committee

CHAIR: Gail Surkan
H.D. (Harry) Haney
Joe Makowecki
Barry Holmes
Ken Skoberg
Brad Klak

Committee Responsibilities:

The Governance & Human Resources Committee makes recommendations to the Board with respect to: governance practices, committee structure and memberships, enterprise risk management, corporate performance, strategic management of human resources and corporate communication.

Risk Management Programs Committee

CHAIR: Ken Skoberg
Brad Klak
Kim McConnell
John Van Tryp
Tony Yelenik

Committee Responsibilities:

The Risk Management Programs Committee reviews changes to new and existing risk management programs and oversees delivery of risk management programs.

Audit Committee

CHAIR: Barry Holmes
John VanTryp
Kim McConnell
Tony Yelenik

Committee Responsibilities:

The Audit Committee oversees the fiscal management, financial reporting, annual budgets/quarterly forecasts, quarterly/annual financial statements, as well as internal/external audit plans, reports and internal controls. The committee is also responsible for enterprise risk management relating to the above areas.

Credit Committee

CHAIR: Joe Makowecki
H.D. (Harry) Haney
Gail Surkan
Barry Holmes
Brad Klak

Committee Responsibilities:

The Credit Committee reviews and monitors the lending function and credit risk exposure. This ensures that lending programs are appropriate and sound lending principles are maintained.

AFSC continues to meet the changing needs of our clients, evolve our programs and technology, and build on our strengths. We are pleased to share Management's Discussion and Analysis, which offers a detailed look at our successful 2007-08 operations.

AFSC at a Glance

AFSC provides income stabilization, disaster assistance, production insurance, and loans and guarantees to primary agriculture producers in Alberta. The corporation also provides loans and guarantees to commercial Alberta businesses.

Financial Highlights

NOTE: Please read the following information in conjunction with AFSC's financial statements and attached notes.

We are pleased to report that 2007-08 has been yet another successful year of operations for AFSC. The corporation recorded a surplus of $52 million. The surplus balance carried over increased to $762 million.

Corporate expenses in 2007-08 decreased by $251 million from the previous year, mainly as a result of lower claim payments to farmers.

Corporate Highlights

Fundamentally, AFSC is about service. We continually seek new and innovative ways to provide our customers with the financial and risk management tools they need for success. In everything we do, we strive to be a Partner of Choice, a Provider of Choice, and an Employer of Choice.

This past year, AFSC has seen successes in several areas. To help the agriculture sector who is faced with high input costs, $149 million of provincially funded benefits were delivered through the Alberta Farm Recovery Plan (AFRP). The

AgriStability program replaced the Canadian Agriculture Income Stabilization (CAIS) program for the 2007 program year. In response to the crisis felt in the hog industry, AFSC advanced funds of $7.3 million through the AgriStability Targeted Advance Payment (TAP) program. By automating our processes, AFSC has been able to respond more quickly to claims than ever before. We dramatically reduced the average turnaround time of CAIS claims processed from 183 days to 25 days. Nearly 35 per cent of these claims were processed in seven days or less.

Automation was implemented in the Production Insurance area in 2007. Using hand-held computers, AFSC adjusters provided farmers with an immediate, in-the-field response to Hail Endorsement and Straight Hail claims, effectively reducing the processing time for claims. This can be mostly attributed to the elimination of courier and verification time, which cut the time for claim processing in half.

Following a comprehensive 2007 review of Production Insurance, AFSC made important changes in the method for setting yield coverage. Individual Coverage, which takes effect for the 2008 crop year, creates a direct link between an individual's production history for a crop and the yield coverage offered for that crop.

In 2007-08, AFSC's direct lending totalled $280.0 million - increasing 15 per cent over the previous fiscal year. We further addressed customers' specific needs by introducing an innovative Value-Added & Agribusiness Program (VAAP) to provide a flexible source of loan capital for the value-added and agribusiness industries. From inception of the program on September 1, 2007, to March 31, 2008, 42 loans were authorized totalling $18 million and representing project values in excess of $50 million.

AFSC continued to strengthen our performance-based culture this past year. Human Resources completed a comprehensive review of compensation and benefits, revamped the succession planning process, and enhanced the employee recognition program.

Information Technology (IT) developments have helped to improve both operational efficiency and customer service. Using the new service delivery model, IT is able to complete more projects along multiple tracks – on time and within budget.

As a result of our continuing focus on excellent service, customer satisfaction ratings have steadily climbed. Based on an independent survey conducted in April 2008, overall AFSC customer satisfaction increased to 73 per cent, a jump of six per cent from the previous year.

Goal 1: Growth

AFSC plays a pivotal role in the growth and development of Alberta's small businesses, farms, and value-added agribusinesses by providing unique financial services.

Key Results:

- Investment in Alberta farms.
- Investment in Alberta agribusinesses, rural businesses, and commercial enterprises.
- Leverage for investments into Alberta enterprises through AFSC assistance, partnerships, alliances, and syndication.
- Become known for Customer Service Excellence in creative lending services for Alberta enterprises.

Investment & Leverage Measures	Number of Transactions		Total AFSC Loans ($'s in millions)	
	Target	Performance	Target	Performance
All Enterprises	1175	1565	$192	$281
Farm Loans	725	1292	$124	$214
Agribusiness loans	83	242	$32	$66
Rural business	980	1,493	$82	$266
Customer Service Excellence Measures			Target	Performance
Customer satisfaction with effectiveness of lending division services based on survey results			80%	80%
Percentage of customers surveyed agree that AFSC financing has helped the business establish and/or grow			92%	93%

Goal 2: Sustainability

AFSC will contribute to the sustainability of the agriculture economy by developing and providing unique risk management services.

Key Results:

- Farmers continuously participate in risk management products.
- Risk management products are targeted to cover important risks identified by farmers.
- Alberta farming operations are considered to be more stable and economically sustainable.
- Business Risk Management (BRM) programs and products are effective.
- AFSC is a leading risk management service known for Customer Service Excellence.

Continuous Participation Measures	Target	Performance
% of farming operations that continue to participate in CAIS	92%	97%
% of farming operations that continue to participate in Production Insurance	90%	95%
Risk Management Coverage Measures	**Target**	**Performance**
% of producers that agree they have BRM products available to address important risks	80%	66%
Reduction in the number of acres without insurance products	3%	0.21%
Stable and Sustainable Farming Operations Measures	**Target**	**Performance**
% of producers that agree participation in BRM products has helped to stabilize their income over the last five years	68%	62%
% of producers that agree participation in PI products helped them secure additional finance to support operations	32%	22%
Customer Service Excellence Measures	**Target**	**Performance**
Customer satisfaction with effectiveness of service delivery of CAIS program based on survey results	66%	70%
Customer satisfaction with effectiveness of service delivery of insurance products based on survey results	78%	78%

Review of 2007 Programs

This section of Management's Discussion and Analysis provides 2007-08 highlights for each of our business areas.

Agriculture Income Stabilization

Overview

The Canadian Agricultural Income Stabilization (CAIS) program, first introduced in 2003, is a federal-provincial-territorial initiative that protects farmers against declines in farm income. With the transition to the new national Growing Forward Agreement, CAIS will be replaced with AgriStability, AgriInvest and AgriRecovery. AgriStability provides support for producers during times of margin declines of more than 15 per cent below their reference margin. These declines could be caused by circumstances such as low prices or rising input costs. In Alberta, AFSC is only responsible for administering the AgriStability portion of these three CAIS replacements, which came into effect in 2007. Designed to work with PI, AgriStability is a key component of Alberta's agriculture risk management strategy. Producers can contribute to their AgriInvest account, which is then matched by a government contribution. These funds can be used to address small margin declines, to mitigate risk, or to make other investments. The purpose of AgriRecovery is to allow governments to provide efficient assistance to producers, when existing programs may not provide adequate coverage.

The Government of Alberta (GOA) has introduced and funded a number of enhancements using information available from the CAIS program to further protect Alberta farmers. The Alberta Reference Margin Initiative (ARMI), which applies to 2006 program year claims, has provided an additional $15 million to Alberta farmers to help offset losses and escalating production costs. Producers have also received further financial assistance through the Alberta Farm Recovery Plan (AFRP), introduced by the Province of Alberta in October 2007 to help cover the increased costs for feed, fuel and fertilizer. AFSC successfully administered this program, and the processing and delivery of provincially funded benefits of $149 million by March 31, 2008.

Funding

CAIS is funded in accordance with the federal-provincial-territorial Agricultural Policy Framework Agreement. The Government of Canada funds 60 per cent of AgriStability claim payments and administrative costs, while the Government of Alberta funds the remaining 40 per cent. Any benefit payment to Alberta producers above the national program parameters as a result of a provincial enhancement is fully funded by the Alberta government.

Highlights

The year brought dramatic changes in economic conditions, affecting both grain and livestock producers in Alberta. Both sectors saw high costs for grain (seed or feed), fuel, fertilizer and labour. For grain producers, these high costs were offset by average to above average yields valued at higher prices than in the previous year. Livestock producers struggled as the price for their livestock fell, in many cases, far below a break-even point. To help producers adjust to the new market reality, both federal and provincial governments provided extra support this past year.

A 2007 Targeted Advance Payment (TAP) provided an immediate response for timely funding to the hog sector. TAP helps producers with cash flow by bridging the gap between the time of revenue loss and the time when payments are made under CAIS. AFSC administers the TAP program, providing producers with a portion of their estimated 2007 CAIS benefit. By March 31, 2008, $7.3 million in TAP funds were advanced to 211 hog producers.

AFSC delivered the CAIS Inventory Transition Initiative (CITI), resulting in payments to 2003, 2004, and 2005 CAIS participants. AFSC also administered the CITI program in Alberta on behalf of the federal government. The program is fully funded by the Government of Canada, including administration costs. During the year ended March 31, 2008, $45.3 million was processed and paid to 7,151 producers.

In 2007, the corporation also added a valuable online filing feature to myAFSC, our secure 24-hour website. This enhancement allows not only producers and their accountants, from anywhere in the province, to log on to myAFSC from their separate computers but to submit their supplementary forms online. Customers can now view past CAIS history, check the status of their applications and electronically file their CAIS e-Forms. Registered users, representing 61 per cent of CAIS applicants in 2007-08, have access to myAFSC, either directly or through their accountants. AFSC is committed to responding quickly when disaster happens. By streamlining internal

processes and enhancing computer capabilities with features like auto-verification, AFSC was able to significantly reduce turnaround times for CAIS claim processing.

When CAIS was first implemented in 2003, 42 per cent of surveyed AFSC customers were satisfied with program delivery. Customer satisfaction ratings have since steadily climbed. When surveyed by an independent firm, overall satisfaction with CAIS delivery in 2007 had jumped to 70 per cent, up from 66 per cent the previous year.

Insurance

AFSC's insurance programs continued to help producers meet the challenges of unpredictable weather and volatile commodity prices head-on. In 2007, Alberta's producers were tested on all fronts. Canada's rising dollar and high fuel, fertilizer and feed costs translated into an increased financial impact on producers. Weather patterns created additional challenges for producers in 2007. In some areas, excessive moisture resulted in unseeded acres. Elsewhere, drought and hailstorms resulted in lost production or destroyed crops. Despite these challenges, the crop year ended with high grain and oilseed prices. Strong commodity prices, combined with average crop yields, produced a net result of lower than average claim payments.

All AFSC insurance programs are voluntary and can be personalized to best meet the risk management needs of each farm. Programs include Production-Based Insurance, Area-Based Insurance for Hay and Pasture, Hail Insurance and Wildlife Damage Compensation.

Insurance from AFSC is a proven way to help producers manage crop production risks. AFSC customers are increasingly satisfied with the products and services we offer. Based on an independent survey conducted in April 2008, 78 per cent of insurance customers expressed satisfaction, compared to 73 per cent in the previous year.

Production Insurance (PI)

Overview

PI provides coverage for crop losses due to designated perils and is available on grains and oilseeds, grain corn, sugar beets, vegetables, pulse crops and a number of specialty crops and honey. The producer's share of the premium varies according to the insurance coverage levels selected. For extra protection, producers can choose to add Hail Endorsement (HE). This feature pays for claims when an insured crop suffers 10 per cent or more hail damage.

Producers are able to cover market price risk through the PI program's Spring Price Endorsement (SPE) and the Variable Price Benefit (VPB). The SPE feature protects insured producers against significant drops in market prices between the time when seeding decisions are made and when crops are harvested. Producers who purchase SPE coverage automatically receive Revenue Insurance Coverage (RIC) to help reduce the effects of long-term low market prices. Conversely, the VPB is a built-in tool that provides additional compensation to producers for crop losses when commodity prices significantly increase above the insurance price during the growing season.

Funding

PI is funded by premiums from producers, the Province of Alberta and the Government of Canada in accordance with the federal-provincial-territorial Agricultural Policy Framework Agreement. Under this agreement, premiums are to be shared among producers, the Government of Canada and the Government of Alberta in the ratio of 40:36:24 respectively. Because some of the enhancements made to the PI program are fully funded by the GOA, the actual share of the premiums for producers, the Government of Canada and the GOA are in the ratio of 38:33:29.

A Crop Insurance Fund is established to account for all revenue and expenses related to the PI program. Within the last five years, the Province of Alberta has introduced a number of enhancements to the PI program. Some of these Alberta initiatives are not cost shared by the federal government. The PI program results, contained in Schedule 1 of the financial statement, include both the national program and Alberta initiatives. The surplus balance of $643 million in the Crop Insurance Fund is made up of a $514 million surplus representing the national program, a $110 million surplus representing Alberta initiatives, and a surplus of $19 million representing the Crop Reinsurance Fund of Alberta.

To mitigate risks inherent in the insurance business, the corporation carries reinsurance of its PI risks described in more details in Note 2 (e) to the financial statements. A summary of transactions in the two reinsurance funds is under Note 16 to the financial statements.

Highlights

Producers continue to view PI as an important risk management tool, with 11.7 million acres of annual crop production insured, down by only 28,000 acres from 2006. Increased commodity prices in 2007 caused a record $2.2 billion in risks insured, compared to $1.6 billion in 2006.

Premiums for PI (including HE and SPE) totalled $290.0 million, compared to $319.6 million in 2006. Given the increased commodity prices and the reduced premium share by the province of Alberta (from 70 per cent to 50 per cent), SPE/RIC participation decreased significantly from the previous year. In 2007, there were 2,740 subscriptions, compared to 8,989 subscriptions in 2006.

For the 2007 crop year, PI claims (including HE, SPE and RIC) totalled $225.1 million, up from $132.1 million the previous year. Due to the dramatic increase in the market price for crops, there were no SPE and RIC claims.

Significant hail damage, combined with the higher value of crops due to strong commodity prices, caused HE payments to double from the previous year. There were 3,962 HE claims totalling $137.2 million in 2007, compared to 2,994 HE claims totalling $67.8 million in 2006.

In 2007, AFSC completed a comprehensive review of our PI program's alignment with industry best practices. Recommendations from this review led the corporation to implement important changes in the method for setting yield coverage. The new method is called Individual Coverage and will take effect for the 2008 crop year. Individual Coverage promotes and rewards best farm management practices by creating a direct link between an individual's production history for a crop and the yield coverage offered for that crop. Producers with five or more yield records for a crop will have their coverage based on an average of these yields. To ensure that yield coverage remains stable, AFSC will cushion a producer's yield when production is abnormally low in a given year, as well as adjust historical yields to reflect upward yield trends.

Hay and Pasture Insurance

Hay Insurance Overview

The Hay Insurance program compensates producers for production losses on hay crops caused by designated perils. Participants can structure coverage to suit their individual farm situation and can elect different coverage levels and price options for dryland and irrigated hay. Hay Insurance provides a production guarantee that triggers claims when hay yields in a given year fall below a percentage of their normal expected yield.

The Export Timothy Hay Insurance program, which was first introduced in 2006, provides a production and grade guarantee for Timothy Hay produced for the export market.

In 2007, AFSC introduced the Moisture Deficiency Endorsement (MDE) for dryland hay. MDE is a single peril endorsement. Claims are triggered when spring soil moisture and/or rainfall in a specific area drop below the long-term average for the time periods selected by the producer. MDE provides AFSC customers with an option to supplement their coverage under the production insurance guarantee.

Pasture Insurance Overview

AFSC continued to offer two distinct pasture programs in 2007: Satellite Yield Insurance (SAT) and Moisture Deficiency Insurance (MDI).

The SAT program, available only in selected areas of southern Alberta, is an area-based insurance option. SAT provides protection for pasture producers when township-wide pasture growth in a given year falls below the normal expected pasture growth. SAT uses satellite imagery data from a producer's township to assess pasture conditions and determine payments.

The MDI program is a province-wide, area-based insurance option. MDI uses moisture information from weather stations and spring soil moisture measurements taken on stubble fields. Participating producers are compensated when accumulated moisture at one or more selected weather stations falls below the normal expected moisture.

Funding

Funding parameters for Hay and Pasture Insurance programs are the same as those provided for PI.

Highlights

In 2007, Hay Insurance participation decreased from the previous year with 2,462 policies on 495,000 acres, compared to 2,915 policies on 570,000 acres in 2006. The decline in participation, compared to 2006, was the result of some producers indicating they did not require insurance as they had an above average carry over of feed stocks.

For the 2007 crop year, 5.7 million acres were insured under SAT and MDI, compared to 5.9 million acres in 2006. Hay and pasture claims (including Hay, Export Timothy, SAT MDI and MDE) totalled $13.3 million, more than double the $6.2 million paid for 2006 claims. In 2007, there were higher payments under both SAT and MDI when compared to 2006, because of hot, dry conditions in June, July and August in many areas of Alberta.

Straight Hail Insurance

Overview

In addition to the Hail Endorsement option offered through PI, producers can also subscribe to Straight Hail Insurance. The Straight Hail Insurance program provides producers with affordable spot-loss protection for damage to crops due to hail or accidental fire. Participants can purchase Straight Hail Insurance at any time throughout the year, either in combination with PI or on its own. Straight Hail Insurance is available to any individual with an interest in an insurable crop, including producers, tenants or landlords with a crop share lease agreement. The combined dollar coverage of all insured parties cannot exceed the maximum dollar coverage per acre limit. Losses are paid based on the percentage of damage that occurs to the crop.

Funding

Straight Hail Insurance is entirely funded by producers' premiums.

Highlights

Alberta made headlines in 2007 for its near record number of hail storms. Producers experienced 121 days of hail damage to crops from May to September, compared to 109 days of hail damage in 2006.

In the 2007 crop year, insured acreage increased to 5.5 million acres from 5.3 million in 2006, mainly due to customers anticipating above average crop yields. Losses were paid on 2,209 contracts for $40.3 million with a loss-to-premium ratio of 122.7 per cent. This compares to 2006 losses paid on 1,726 contracts for $26.4 million with a loss to premium ratio of 94.5 per cent.

Using automated adjusting practices, AFSC has been able to respond to hail claims more quickly and efficiently than ever before. This past year, 100 of our 146 adjusters were equipped with hand-held computers that helped them calculate claims immediately in the field. This saved hours of paperwork and a return trip to obtain the farmer's signature.

Wildlife Damage Compensation

Overview

The Wildlife Damage Compensation Program (WDCP) provides spot loss coverage for crop damage caused by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops that are eligible for PI, including hay.

Funding

There are no premiums charged under the WDCP. However, a non-refundable appraisal fee of $25 is charged for each section of land for which a claim is submitted.

The GOA funds 52 per cent of indemnities, and the Government of Canada funds the remaining 48 per cent. The Government of Canada funds 60 per cent of the administration and adjusting costs, and the Province of Alberta funds the remaining 40 per cent.

Highlights

In 2007, WDCP payments were greater than the previous year, due to significantly higher crop market values, even though the number of claims dropped. Farmers were able to harvest their crops before the snow came, reducing over-winter crop damage caused by wildlife. There were 825 wildlife and waterfowl damage claims in 2007 totalling $7.6 million, compared to 1,597 claims totalling $7.1 million in 2006.

Lending

AFSC offers a broad range of financing options to help meet the needs of Alberta's farm and business communities. With 38 lending offices located across the province, AFSC's lenders are close to our customers and uniquely positioned to support economic growth in rural Alberta. We understand that accessing capital can be a real challenge. By taking the time to listen to our customers, our lenders are able to customize financing solutions to meet their business needs. Our farm and commercial loan programs offer competitive and in some cases preferred interest rates as well as various fixed rate terms.

AFSC offers loans for farms, disaster assistance, agribusinesses and commercial enterprises, as well as loan guarantees and capital sourcing. These products and services are offered in all lending offices across the province. Flexible terms provide stability for longer term planning and managing future cash flows in industries where income and expenses can be volatile.

AFSC is committed to supporting the development or expansion of agriculture, agribusiness and commercial enterprises in Alberta by sourcing loan capital directly or through partnerships with other financial institutions.

AFSC's commitment to the value-added agriculture and food processing sectors is well known. Once again, we have enhanced existing programs and introduced a new loan program to assist these Alberta-based industries. Our 2007 loan review led to the introduction of the Value-Added & Agribusiness Program (VAAP), which came into effect on September 1, 2007.

General Terms and Conditions

AFSC finances loans with terms and fixed interest rates up to 20 years. We offer various repayment schedules including monthly, semi-annual, quarterly and annual frequencies. In addition, our customers have the ability to prepay any loan without penalty. Loans can be prepaid or paid out in full at any time without penalty. AFSC loans are generally secured by land, buildings and equipment.

Funding

AFSC lending programs are funded by repayments from existing borrowers and from money borrowed through the Province of Alberta. Operational costs for AFSC's lending operations are funded by interest, revenue and fees collected from customers, as well as by contributions from the province.

Highlights

Despite the difficulties faced by the livestock sector in 2007, AFSC continued to grow its lending business within Alberta's farm and business communities. New direct loans were $280.0 million for the year ending March 31, 2008, as compared to $243.4 million for the previous year.

The total amount of investment leveraged by our loans is an important indication of AFSC's contribution to growth in Alberta. The 2007-08 lending investment contributed significantly to the Alberta economy. By fiscal year end, the $281.4 million in lending translated to leveraged investment, or total project dollars, of more than $468.6 million.

In 2007-08, the loan portfolio reached $1,073 million, as compared to $1,009 million for the previous year. Total arrears on the lending portfolio continue to be well managed. Customers give our services high ratings. When surveyed by an independent firm this past year, more than 90 per cent of customers agreed that AFSC financing has helped establish or grow their farm or business.

Alberta Farm Loan Program (AFLP)

Overview

AFSC introduced the Alberta Farm Loan Program (AFLP) on April 1, 2006. The AFLP provides a reasonable and consistent source of capital to individuals and companies involved in primary agriculture in Alberta. In 2007, AFSC enhanced this program to enable producers to borrow money for investment in value-added agribusinesses. A unique feature of the AFLP is an incentive that offers an interest rate reduction for the first five years of the loan to help qualifying individuals establish their farming operations for sustainable, long-term viability.

Highlights

For the fiscal year ending March 31, 2008, AFSC authorized 1,220 AFLP loans totalling $209 million, compared to 895 loans totalling $148.5 million authorized in the 2006 fiscal year.

Alberta Disaster Assistance Loan Program (ADALP)

Overview

ADALP was designed as a stand-by emergency response loan program. It is intended to assist eligible primary producers who have suffered an agricultural disaster, helping them maintain or regain viability. The maximum loan of $1 million can be used to restore working capital and financial viability to an operation through flexible terms and a preferred interest rate of five per cent for a maximum period of 10 years.

Highlights

For the fiscal year ending March 31, 2008, AFSC authorized 10 ADALP loans totalling $1.3 million.

Commercial Loan Program

Overview

The Commercial Loan Program provides an alternate source of loan capital to individuals and businesses involved in commercial enterprises in Alberta. This program promotes the development of resources and the general growth and diversification of Alberta's economy. With a maximum loan of $2 million, participants take advantage of reasonable fixed and renewable rates and terms.

Highlights

During the past fiscal year, AFSC granted 200 commercial loans to Alberta businesses totalling $48 million. These loans were leveraged with investors' and other lenders' funds for total project values of $118 million.

The commercial loan portfolio totals $162 million. The portfolio continues to perform well as total arrears have significantly declined over the past year.

Value-added & Agribusiness Program (VAAP)

Overview

In a continuing effort to provide responsive and flexible loan programs, AFSC introduced the VAAP in September 2007. Business owners can use VAAP loans to start, expand, purchase, or upgrade facilities, equipment or other capital assets. The VAAP also covers working capital expenditures, including training costs that support new or expanded operations or products, and change of ownership.

Highlights

By introducing this broad-based and flexible program, AFSC has been able to further consolidate our lending products. Feedback from stakeholders has been extremely positive.

For the fiscal year ending March 31, 2008, AFSC authorized 42 loans under this program for $18 million with project dollars totalling $51 million.

Specific Loan Guarantee Program

Overview

This program enables eligible farm or commercial applicants to obtain financing from other financial institutions supported by a specific loan guarantee from AFSC. In addition to standard guarantees to support a loan, AFSC can also arrange guarantees to back a letter of credit, bid bonds or performance guarantees.

Highlights

During the past year, AFSC provided four specific guarantees to Alberta farmers or commercial businesses with a total investment value for all projects of $4 million.

Capital Sourcing

Overview

The Capital Sourcing Program encourages the expansion of agriculture, agribusiness and commercial enterprises in Alberta by providing our customers direct access to capital through other lenders. AFSC works with other financial institutions that are able to provide financial support to farm and business owners. This ensures our customers get the capital they need to develop or expand their business. Capital sourcing services can be provided as a stand-alone, fee-based service or in conjunction with our other loan programs.

Highlights

During the past year, AFSC continued to build strong relationships with other financial institutions. The corporation provided capital sourcing services to 27 borrowers for projects totalling $41 million.

Human Resources

Our employees are the face of AFSC, and their passion and commitment is what makes customers appreciate working with us. We know our success hinges on making sure we have the best employees in the right place at the right time – today and in years to come. AFSC's employees focus on customer service – both internally and externally – and are always discovering new ways to improve on these skills through various learning opportunities, such as courses and workshops. As of March 31, 2007, AFSC employed 721 employees throughout Alberta. During this past fiscal year, we continued to build our performance-based culture by creating the conditions that reinforce excellence. AFSC provides employees with a challenging and positive work environment, clear expectations and goals, decision making input and opportunities for career advancement, training, and development.

In 2006, AFSC developed a framework for succession planning and employee recognition. We have seen both of these initiatives come to fruition this past year. The performance review process was revamped in 2007 to include important succession planning information related to career goals and movement. This has enabled AFSC to better plan staffing and development for every division and every employee.

Through our innovative attraction and retention initiatives we strive to ensure AFSC continues to be a great place to work.

Information Technology (IT)

The effective and efficient utilization of IT service is critical to AFSC's success. Our goal is to evolve alongside rapidly changing technology and leverage IT in ways that produce outstanding customer service and enable innovative program delivery.

In 2007, AFSC fundamentally transformed our IT service delivery model. This involved strengthening IT governance, staffing all core IT functions in-house, and pre-qualifying external IT vendors for the delivery of large system development projects. These changes have produced stronger cohesion and collaboration between IT and core business areas, as well as increased capacity to move the corporation forward on multiple tracks – delivering projects on time and within budget. IT is being leveraged increasingly for further enhancements, operational efficiencies and better customer service.

During the year, a number of new initiatives were completed, including online employee time tracking, online recruitment capability, video-conferencing, virtual private network (VPN) for external access, desktop standardization, and enhancements to dramatically improve the speed and quality of CAIS claims processing. A project is well underway to replace legacy financial and lending systems with newer, improved technology. The expansion of myAFSC has enabled AFSC customers to file key CAIS information online. IT has also developed "web-friendly" technology to support the new Individual Coverage for our crop insurance products, which has been implemented for the 2008 crop year.

Enterprise Risk Management

Enterprise Risk Management is vital to protecting AFSC's customers, business interests and long-term viability. The corporation has a comprehensive Enterprise Risk Management plan to mitigate identified risks to acceptable levels. The plan ensures that risk-taking activities and practices are appropriate to meet customer needs while fulfilling AFSC's corporate strategy and goals.

The Board of Directors and its Committees have oversight responsibility for the Enterprise Risk Management plan and practices. A review of key strategies to address risks is an important component of the Board's mandate.

The Executive Management Team is responsible for managing corporate-wide enterprise risk. Management at all levels is responsible for the ongoing monitoring of risks and implementing appropriate measures to mitigate them.

The following discussion identifies some of the key risks the corporation faces and how these risks are managed.

Strategic Risk

The Board at its annual strategic planning retreat reviews the corporate vision, mission, goals and establishes strategic priorities. During the planning retreat, the Board also reviews the mandates of the corporation and its core programs and deals with strategies to address key risks. The Board establishes corporate performance expectations and reviews performance achieved on a quarterly basis.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter. Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Higher security levels are required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. These measures do not eliminate risk, but they do diminish the risk of significant losses. The breakdown of our loan portfolio by business is provided in Note 14 (a) to the financial statements.

AFSC invests surplus funds generated by Production and Hail Insurance operations. To lessen the risk of potential non-realization of investment, we invest only in secured investments with federal or provincial governments or corporations that have superior credit ratings.

Payments to some CAIS participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. AFSC mitigates this risk by:

- Providing a rebate for repayments occurring within 90 days from notification of overpayment
- Converting overpayments to an interest-bearing loan with a repayment period of up to 10 years

The corporation also has a right of offset against payments under CAIS and other programs such as PI delivered by AFSC. Where AFSC is not able to recover overpayments from future program payments, we are committed to recovering the overpayment by pursuing collection through other means.

AFSC provides insurance coverage on crops, effective at the signing of a contract of insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, we offer a discount for early payment of insurance premiums and arrange a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitor outstanding premiums and promptly take collection action when required. Insurance contracts are not renewed for future years if premiums for the prior year are outstanding at the time of renewal.
AFSC, through our reinsurance broker, mitigates credit risk related to non-recoverability of reinsurance proceeds from private reinsurance companies. We monitor the concentration of credit risk for the insurance contracts within the portfolio. The financial position of each reinsurer is closely evaluated. We have no significant reliance on any one reinsurer.

Interest Rate Risk

Interest rate risk is the impact that future changes in interest rates have on cash flows and fair value of assets and liabilities. To mitigate interest rate risk, AFSC focuses on matching the repayment timing of amounts borrowed with the repayment timing of loans made. AFSC allows its borrowers to repay loans in part or in full at any time without penalty. Repayment of loans by customers in part or in full prior to the contract date is a normal feature of our lending applications. The corporation strives to minimize the gap between loan repayment and debt repayment on a regular basis. As loan repayments before maturity are not determinable with reasonable certainty, gaps are identified and dealt with when new borrowings are made. As of March 31, 2008, there was a reasonable gap between the amount of loan and debt repayments due for periods of one to five years and six to 10 years. The gap position as of March 31, 2008 is presented in Note 14 (b) to the financial statements. AFSC's Investment Policy of surplus funds related to PI, Hay and Pasture Insurance, and Hail Insurance program

operations further mitigates interest rate risk. The investment policy is approved by the Board and compliance with the policy is reported to the Board Audit Committee at least twice a year. We set investing durations that match management's best estimate of when investments need to be liquidated to meet financial commitments.

Liquidity Risk

Liquidity risk is the potential for financial loss incurred if AFSC cannot meet its financial commitments for cash. As an integral part of liquidity management, we use sound cash management practices through cash flow statements, with the objective of maintaining sufficient funds to meet business needs at all times. AFSC mitigates liquidity risks by retaining adequate bank balances in operating accounts. These accounts yield a reasonable rate of return through the Government of Alberta Consolidated Cash Investment Trust Fund. This investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice. Additionally, the portfolio allows access to advances from the GOA and a revolving borrowing limit of $1.4 billion through Alberta Finance.

Insurance Risk

Insurance risk is the potential for financial loss if insurance claims exceed program premiums and reserves in a year. We mitigate insurance risk by setting premium rates that reflect actuarially sound business principles. Our processes take into account the past results of the program as well as the amount of carried over surplus in the Insurance Fund. The major insurance programs are certified by independent actuarial firms for long-term sustainability and premium setting methodology.

In order to further mitigate risks inherent in the insurance business, management has secured government and private sector reinsurance arrangements. This limits the exposure of both the Government of Canada and Alberta against insurance program losses in the event that insurance claims exceed program premiums and reserves.

Operational Risk

Operational risk refers to the risk of loss resulting from insufficient or failed internal processes. AFSC's Enterprise Risk Management plan provides a framework and common understanding of risk and measures. In addition, corporate policies and procedures are in place to ensure adequate internal controls reduce the exposure to operational risks with these policies and procedures.

Formal processes are in place to monitor compliance. Managers oversee operational risk in their respective work areas. Finance, Human Resources, Administrative Services and Information Technology manage operational risks specific to their areas as follows:

Business Manager:
: operational risks inherent in business

Finance:
: credit, interest rate, liquidity and financial controls

Human Resources:
: employee recruitment, retention, succession planning and employee discipline

Administrative Services:
: physical facilities and assets, employee safety and security, corporate liability and business continuity

Information Technology:
: computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information

As part of overall corporate Enterprise Risk Management, the Internal Audit department plans and conducts operational and functional audits based on risk assessments. This department also examines internal process controls and compliance with policies and procedures regularly. External auditors review the effectiveness of internal controls annually. Both external and internal auditing groups report their findings to the Audit Committee. The management team takes timely action in addressing the internal and external audit recommendations. Management presents progress reports on implementation of audit recommendations to the Audit Committee periodically.

Executive Management Team

Brad Klak, *President and Managing Director*
R. (Krish) Krishnaswamy, *Vice-President, Finance & Corporate Affairs*
Rick Bell, *Vice-President, Lending*
Merle Jacobson, *Vice-President, Risk Management*
Donna Bryden, *Vice President, Human Resources & Community Relations*

INCOME STABILIZATION

CANADIAN AGRICULTURAL INCOME STABILIZATION PROGRAM (CAIS)

Claim Year	Number of Claims Processed	Number of Claims with Payment	Payment $ 000,000	Average Total Payment $
2003	32,672	19,778	433	21,900
2004	31,194	16,551	274	16.562
2005	31,136	12,261	187	15,281
2006	27,600	9,103	134	14,763

These claims were also processed under the Reference Margin Pilot Project (2003-2005) and the Alberta Reference Margin Initiative (2006) resulting in payments of $190 million.

PRODUCTION INSURANCE FOR ANNUAL CROPS

CROP INSURANCE

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	13,491	11,696	1,627,330	183,349	4,140	42,702	23.3
	2007	12,901	11,668	2,175,440	205,074	5,645	87,886	42.9

* Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Unit Insurance and Silage/Greenfeed

HAIL ENDORSEMENT*

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	11,142	9,867	1,434,957	57,140	2,994	67,835	118.7
	2007	10,682	9,788	1,932,603	66,503	3,962	137,188	206.3

* Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Unit Insurance and Silage/Greenfeed

SPRING PRICE ENDORSEMENT*

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	8,989	8,553	1,168,406	79,127	145	194	0.2
	2007	2,740	1,842	343,158	18,439	0	0	0.0

* includes Crop Insurance, Corn Heat Unit Insurance & Silage/Greenfeed

REVENUE INSURANCE COVERAGE*

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	8,989	8,553	1,168,406	n/a	6,382	21,319	n/a
	2007	2,740	1,842	343,158	n/a	0	0	n/a

* includes Crop Insurance, Corn Heat Unit Insurance & Silage/Greenfeed

PRODUCTION INSURANCE FOR PERENNIAL CROPS

HAY INSURANCE

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	2,915	570	39,229	7,484	409	1,455	19.4
	2007	2,462	495	39,070	5,922	165	490	8.3

HAY INSURANCE - MOISTURE DEFICIENCY ENDORSEMENT

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2007	422	99	1,310	198	116	198	111.5

*NOT OFFERED IN 2006

EXPORT TIMOTHY HAY INSURANCE

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	134	35	7,732	899	15	167	18.6
	2007	98	25	5,414	617	12	70	11.3

SATELLITE YIELD INSURANCE (PASTURE)

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	1,047	3,650	31,957	5,389	178	1,341	24.9
	2007	917	3,195	33,126	4,454	691	5,255	118.0

MOISTURE DEFICIENCY INSURANCE (PASTURE)

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	2,533	2,236	38,659	5,473	1,272	3,286	60.0
	2007	2,506	2,518	47,958	5,601	1,377	7,332	130.9

HAIL INSURANCE

	Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/Premium Percent
	2006	6,711	5,310	540,141	27,883	1,726	26,351	94.5
	2007	6,854	5,520	581,269	32,825	2,209	40,265	122.7

WILDLIFE DAMAGE COMPENSATION AND EXCRETA PROGRAMS

	Crop Year	Number of Wildlife losses	Wildlife Losses $,000	Number of Waterfowl Losses	Waterfowl Loss $,000	Total Number of Losses	Total Loss $,000	
	2006	1,214	4,987	383	2,100	1,597	7,087	
	2007	500	5,257	325	2,323	825	7,580	

LENDING

	Authorizations 2007-2008		Authorizations 2006-2007		Active and Outstanding March 31, 2008	
	No.	**$M.**	**No.**	**$M.**	**No.**	**$M.**
DIRECT LOANS						
Farm Loans	1,292	213.9	1,077	179.8	9,634	904.0
Commercial Loans	242	66.1	227	63.6	977	174.1
TOTAL DIRECT LOANS	**1,534**	**280.0**	**1,304**	**243.4**	**10,611**	**1,078.1**
GUARANTEES						
Alberta Farm Development Loans*			93	5.5	724	56.5
Specific Guaranteed Loans	4	1.4	9	3.3	57	4.9
TOTAL GUARANTEES	**4**	**1.4**	**102**	**8.8**	**781**	**61.4**
Corporate Grand Total	**1,538**	**281.4**	**1,406**	**252.2**	**11,392**	**1,139.5**

In addition to the above lending, AFSC facilitated capital sourcing for 27 projects with a total investment value of $40 million (2006-07- 35 projects for $15 million).

* The Alberta Farm Development Loan Program was terminated March 31, 2007.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the corporation contained in this annual report are the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. The internal control systems are augmented by periodic reviews by the corporation's internal auditors.

The Alberta Auditor General is responsible to express a professional opinion on these financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, composed of directors who are not employees of the corporation. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities, and to review and approve the financial statements. The internal and external auditors have full and free access to the Audit Committee.

Brad Klak
President and Managing Director

R. (Krish) Krishnaswamy, B. Comm., C.M.A.
Vice-President, Finance & Corporate Affairs

AUDITOR GENERAL
Alberta

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the statement of financial position of the Agriculture Financial Services Corporation as at March 31, 2008 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

FCA
Auditor General

Edmonton, Alberta
May 27, 2008

Statement of Financial Position

as at March 31, 2008 (in thousands)

		2008		2007
				(Restated) (Note 2(k))
ASSETS				
Cash	$	267,451	$	316,020
Accounts receivable (Note 4)		79,724		121,222
Due from Province of Alberta		26,603		48,069
Due from Government of Canada		212,704		303,247
Loans receivable (Note 5)		1,073,056		1,009,293
Investments (Note 6)		438,592		423,144
Property and equipment (Note 7)		36,350		34,395
	$	2,134,480	$	2,255,390
LIABILITIES AND SURPLUS				
Accounts payable and accrued liabilities	$	13,912	$	13,843
Indemnities payable (Note 8)		344,390		591,091
Due to Crop Reinsurance Fund of Canada for Alberta		210		1,847
Allowance for losses on loan guarantees (Note 13)		652		856
Notes payable (Note 9)		1,006,719		931,371
Unearned revenue (Notes 2(k), 10)		6,576		6,411
		1,372,459		1,545,419
Surplus		762,021		709,971
	$	2,134,480	$	2,255,390

Contingencies and commitments (Note 13)

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:

Barry Holmes, Chair of Audit Committee

Harry Haney, Chair of the Board

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

	2008 Budget (Note 3(a))	2008 Actual (Schedule 1)	2007 Actual (Restated) (Note 2(k))
REVENUE:			
Premiums from insured persons	$ 180,535	$ 146,101	$ 132,412
Interest	77,231	67,598	68,257
Contribution from Province of Alberta	315,050	261,816	613,249
Contribution from Government of Canada	311,255	136,157	244,537
Investment income	23,192	37,196	28,589
Fees and other income	18,242	12,907	21,192
	925,505	661,775	1,108,236
EXPENSE:			
Indemnities	670,333	462,411	719,055
Administration (Schedule 2)	70,264	73,242	70,418
Interest	51,125	46,488	45,190
Reinsurance	20,651	15,698	16,829
Farm loan incentives	3,171	3,574	4,552
Provision for doubtful accounts and for losses (Note 12)	2,745	6,190	2,527
Selling commissions	2,568	2,122	2,075
	820,857	609,725	860,646
Surplus for the year	$ 104,648	52,050	247,590
Surplus at beginning of year		709,971	462,381
Surplus at end of year		$ 762,021	$ 709,971

The accompanying notes and schedules are part of these financial statements.

Statement of Cash Flows
Year Ended March 31, 2008 (in thousands)

	2008	2007 (Restated) (Note 2(k))
Operating transactions:		
Surplus for the year	$ 52,050	$ 247,590
Non-cash items included in Surplus	14,205	(14,356)
Changes in assets and liabilities relating to operations	(88,616)	110,652
Net cash (utilized) provided by operating activities[1]	(22,361)	343,886
Investing transactions:		
Proceeds from repayments of loans receivable and sale of properties	179,785	176,347
Loan disbursements	(253,805)	(218,971)
Purchase of investments	(285,766)	(969,420)
Proceeds on disposal of investments	270,644	784,674
Purchase of property and equipment	(9,469)	(9,417)
Proceeds on disposal of property and equipment	32	548
Net cash utilized by investing activities	(98,579)	(236,239)
Financing activities:		
Borrowing from the Province of Alberta	791,031	832,348
Repayment of borrowing from the Province of Alberta	(718,660)	(796,051)
Government of Canada funding for property and equipment	-	3,138
Province of Alberta funding for property and equipment	-	5,523
Net cash provided by financing activities	72,371	44,958
Net (decrease) increase in cash from operating, investing and financing activities	(48,569)	152,605
Cash at beginning of year	316,020	163,415
Cash at end of year	$ 267,451	$ 316,020

(1)Net cash provided by operating activities includes $43,940 (2007 $45,190) of interest paid.

The accompanying notes and schedules are part of these financial statements.

NOTE 1 AUTHORITY AND PURPOSE

The Agriculture Financial Services Corporation (the "corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000.

The corporation provides income stabilization, disaster assistance, production insurance, and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared primarily in accordance with generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

(A) CASH

Cash consists of balances in accounts with the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of funds.

(B) INVESTMENTS

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(C) NOTES PAYABLE

Notes payable are carried at amortized cost. Premiums and discounts on notes payable are amortized to interest expense using the effective yield method over the period to maturity.

(D) FAIR VALUE OF ASSETS AND LIABILITIES

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Accounts payable and accrued liabilities, indemnities payable and Due to Crop Reinsurance Fund of Canada for Alberta. Fair values of Investments and Notes payable are disclosed in their respective notes.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(e) Reinsurance

The corporation carries reinsurance to cover production insurance risks through the two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the production insurance surplus of the corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 16). In addition, the corporation carries reinsurance through private insurance companies. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are not netted against indemnities; they are separately disclosed under revenue. Reinsurance expenses are not netted against premiums from insured persons or contributions from the Province and Government of Canada; they are separately disclosed under expenses.

(f) Loan Discounting

Loans made under the Alberta Disaster Assistance Loan Program, Alberta Farm Income Disaster Program, and amounts previously deferred under the Indexed Deferral Plan are discounted when they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(g) Revenue Recognition

All revenues including Contributions from the Government of Alberta and Canada are recognized on an accrual basis. For the Canadian Agriculture Income Stabilization (CAIS) program and AgriInvest and AgriStability programs, government contributions are based on program benefit payments to producers. For production insurance programs, it is based on premiums invoiced to producers.

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Loan fees are recognized when received or at the time of loan disbursement. Other fees are recorded when the corporation completes the applicable service.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(h) Pensions

The corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

(i) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted fair value of the security and the estimated costs to collect. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the corporation establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

(j) Transactions with Related Parties

The Province of Alberta and the Government of Canada significantly influence the programs delivered by the corporation and are major contributors to the funding of the programs. Therefore, both governments are considered related parties. All related party transactions with the Province and the Government of Canada have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 15).

Year Ended March 31, 2008 (in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Change Accounting Policies

The corporation has changed its accounting policies to Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). Contributions from Alberta and Canada previously deferred have been recognized as revenue. The change has been applied retroactively and the statement of financial position at March 31, 2007 and the statements of operations and cash flows for the year ended March 31, 2007 have been restated accordingly.

	Previously Reported	Restated
Statement of Financial Position		
Unearned revenue	$ 26,144	$ 6,411
Surplus	690,238	709,971
Statement of Operations		
Contribution from Province of Alberta	604,905	613,249
Contribution from Government of Canada	233,148	244,537
Statement of Cash Flows		
Surplus for the year	227,857	247,590
Non-cash items included in surplus	5,377	(14,356)

Note 3 Financial Structure

(a) Budget

The Board of Directors approved the corporation's budget in March 2007. Provincial funding for the approved budget of $315,050 was authorized by the Legislative Assembly.

(b) Crop Fund Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the crop insurance fund is restricted to being used for production insurance purposes.

(c) Other Revenue and Expenses

The Other column in the Schedule of Revenue, Expense and Surplus includes the wildlife program, the Farm Income Disaster Program and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 4 ACCOUNTS RECEIVABLE

	2008	2007
Canadian Agricultural Income Stabilization program:		
Overpayments and advances	$ 69,572	$ 111,737
Administration fees	4,680	5,246
Premiums from insured persons:		
Production insurance program	8,589	9,395
Hail insurance program	177	365
Prepaid expenses	1,216	894
Other	2,151	3,005
	86,385	130,642
Less allowances for doubtful accounts (Note 12)	(6,661)	(9,420)
	$ 79,724	$ 121,222

CAIS overpayments are non-interest bearing until December 31, 2008. Participants will receive a rebate if they repay the CAIS overpayment within 90 days of the overpayment notification or they can convert the overpayment to a loan until December 31, 2008. If the overpayment is not repaid or converted to a loan, the corporation will pursue collection. Collection will include the recovery of the overpayment from future payments under the programs delivered by the corporation as well as programs administered by the Province of Alberta and Government of Canada.

Included in CAIS program overpayments and advances is $3,414 (2007 $15,391) for estimated overpayments that are subject to measurement uncertainty. The estimate of $3,414 is for CAIS participants who have received advance payments but have not yet had their final claims processed by the corporation. The estimate is based on historical experience of advances resulting in overpayments.

The allowance for doubtful accounts of $6,661 (2007 $9,420) for estimated losses on premiums receivable and overpayments is also subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 5 LOANS RECEIVABLE

Loans receivable are comprised of the following:

	2008			2007
	Farm	Commercial	Total	Total
Recorded investment	$ 903,955	$ 174,194	$ 1,078,149	$ 1,017,374
Specific allowance	(437)	(12,243)	(12,680)	(12,178)
General allowance	(13,827)	(761)	(14,588)	(18,499)
	889,691	161,190	1,050,881	986,697
Accrued interest	24,066	385	24,451	25,691
Accrued incentives	(1,522)	-	(1,522)	(2,030)
Loan discounts	(754)	-	(754)	(1,065)
Net carrying value	$ 911,481	$ 161,575	$ 1,073,056	$ 1,009,293

Impaired loans included in the preceding schedule:

	2008			2007
	Farm	Commercial	Total	Total
Recorded investment	$ 1,825	$ 20,578	$ 22,403	$ 25,294
Specific allowance	(437)	(12,243)	(12,680)	(12,178)
Net carrying value	$ 1,388	$ 8,335	$ 9,723	$ 13,116

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of $2,146 (2007 $2,691) on property balances outstanding of $2,591 (2007 $3,115).

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2008	2007
Alberta Disaster Assistance Loan Program	$ 29,742	$ 35,582
Alberta Farm Income Disaster loans	12,949	16,538
Indexed Deferral Plan	341	516
	$ 43,032	$ 52,636

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 5 LOANS RECEIVABLE (CONTINUED)

Included in Loans receivable is a specific allowance of $12,679 (2007 $12,178) and a general allowance of $14,589 (2007 $18,499) that are subject to measurement uncertainty. The amount established for specific and general allowances of $27,268 to cover estimated losses on loans (see Note 2(i)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Loans Receivable is secured by tangible assets consisting predominantly of land followed by building, equipment and other assets. The estimated values of such tangible securities are $1,996,813 (2007 - $2,065,082)

Fair values of loans receivable are not disclosed. Loans receivable consists of developmental loans with uncommon terms such as interest rate rebates/incentives, concessionary interest rates, provision for prepayments with no penalties, longer terms with fixed interest rates, interest rate determination policies and loans with relatively higher financial risks. Determining the fair values of loans receivable with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

NOTE 6 INVESTMENTS

	2008	2007
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 228,040	$ 248,762
Other provincial direct and guaranteed	46,424	42,791
	274,464	291,553
Corporate securities	159,648	127,855
	434,112	419,408
Accrued interest	4,480	3,736
	$ 438,592	$ 423,144

The fair value of investments at March 31, 2008 is $443,770 (2007 $424,519). Fair value is based on quoted market prices including accrued interest.

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 7 PROPERTY AND EQUIPMENT

	Land	Building	Furniture and Fixtures	Computer Equipment and Software	2008 Totals	2007 Totals
	Infinite	25 - 40 years	10 years	2 - 10 years		
Cost						
Beginning of year	347	9,793	4,388	52,848	67,376	58,272
Additions	-	-	176	9,293	9,469	9,417
Disposals and writedown	-	-	(12)	(4,684)	(4,696)	(312)
	347	9,793	4,552	57,457	72,149	67,377
Accumulated amortization						
Beginning of year	-	2,246	2,626	28,109	32,981	26,260
Amortization expense	-	355	927	6,100	7,382	6,815
Disposal and writedown	-	-	(7)	(4,557)	(4,564)	(93)
	-	2,601	3,546	29,652	35,799	32,982
Net book value at March 31, 2008	$ 347	$ 7,192	$ 1,006	$ 27,805	$ 36,350	
Net book value at March 31, 2007	$ 347	$ 7,547	$ 1,762	$ 24,739		$ 34,395

Computer equipment and software costs include $4,742 (2007 $1,247) of costs incurred that are not amortized because they are still in the development stage.

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 8 INDEMNITIES PAYABLE

	2008	2007
AgriInvest and AgriStability and related programs (previously CAIS program)	$ 338,909	$ 580,973
Production insurance	4,802	7,595
Wildlife compensation	212	2,171
Hail insurance	467	352
	$ 344,390	$ 591,091

Estimated indemnities payable of $338,909 and corresponding contributions and receivables from the Province of Alberta and Government of Canada for the AgriInvest and AgriStability programs (replacement of CAIS, effective the 2007 claim year) are subject to measurement uncertainty because they could change significantly in the future, if factors considered by management in establishing the estimates were to change significantly.

AgriInvest and AgriStability indemnities payable includes estimated payments for the 2007 claim year of $200,863 for the vast majority of claims that have not been received yet because the deadline for submission of complete information is after the end of the fiscal year. The program payments are triggered when the participants claim year program margin falls below their support level.

The two factors impacting estimated indemnities payable for the 2007 claim year are the number of participants and estimated program margins. The estimated number of participants for the 2007 claim year is based on the number of farm operations participating in the program during the 2006 claim year. The estimated program margins are based on forecasted changes in eligible income and expenses between 2006 and 2007. Based on historical experience of variability between forecasts and actual results of key assumptions, the estimated indemnities for the 2007 claim year of $200,863 would range from $156,400 to $245,400.

Indemnities payable includes estimated payments of $72,126 for claims received but not processed for the 2006 and prior claim years (2007 - $135,485 for the 2005 and prior claim years). The estimates for the 2006 claim year are based on the number of claims received but not yet processed and the estimated average payment per claim. Indemnities payable also includes estimated payments of $65,920 for related programs (2007 - $125,111). The related programs were approved by the Government of Alberta for the 2005 and 2006 claim years. The estimate is based on historical payment ratios for claims processed.

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 9 NOTES PAYABLE

Notes payable to the Province of Alberta are comprised of the following:

Remaining Term to Maturity	Effective Interest Rate	2008	Effective Interest Rate	2007
				(Restated)
Within 1 year	2.25% - 3.75%	$ 140,000	4.10% - 4.18%	$ 100,000
1 to 5 years	3.43% - 7.64%	319,877	3.75% - 7.64%	386,757
6 to 10 years	4.21% - 6.52%	377,084	4.21% - 6.52%	297,493
Over 10 years	4.43% - 5.12%	159,142	4.43% - 5.12%	139,482
Accrued interest		12,934		11,592
Unamortized discount		(2,318)		(3,953)
		$1,006,719		$ 931,371

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	2009	$	199,688
	2010	$	56,088
	2011	$	210,738
	2012	$	91,900
	2013	$	53,977

The approximate fair value at March 31, 2008 is $1,047,981 (2007 $953,325). Fair value is an approximation of market value to the holder.

NOTE 10 UNEARNED REVENUE

Unearned revenue is comprised of $6,576 (2007 $6,411) of premiums received from producers for production insurance programs relating to the next fiscal year.

NOTE 11 PENSIONS

The corporation participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $2,821 for the year ended March 31, 2008 (2007 $2,252).

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 11 PENSIONS (CONTINUED)

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of $84,341 (2006 $6,765) and the Public Service Pension Plan reported a deficiency of $92,070 (2006 surplus $153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of $1,510 (2006 $3,698). The corporation's share of these pension plans' surplus or deficiency is not determinable.

NOTE 12 ALLOWANCES FOR DOUBTFUL ACCOUNTS AND FOR LOSSES

	Accounts Receivable	Farm Lending Loans Receivable	Commercial Lending Loans Receivable	Loan Guarantees	2008 Total	2007 Total
	(Note 4)	(Note 5)	(Note 5)	(Note 13)		
Allowances at beginning of year	$ 9,420	$ 15,467	$ 15,210	$ 856	$ 40,953	$ 39,633
Provisions	(2,477)	(1,176)	10,047	(204)	6,190	2,527
Write-offs, net of recoveries	(282)	(27)	(12,253)	-	(12,562)	(1,207)
Allowances at end of year	$ 6,661	$ 14,264	$ 13,004	$ 652	$ 34,581	$ 40,953

Note: Under Loans receivable, write off in 2008 includes $10,409 (2007 $nil) in respect of one loan account under the Project Investor Financing program.

NOTE 13 CONTINGENCIES AND COMMITMENTS

Contingent Liability

	2008	2007
Loan guarantees	$ 19,587	$ 26,336
Less allowances for losses (Note 12)	(652)	(856)
	18,935	25,480
Legal actions	180	800
Total contingencies	$ 19,115	$ 26,280

Year Ended March 31, 2008 (in thousands)

Note 13 Contingencies and Commitments (continued)

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the corporation

Legal actions represent amounts claimed or amounts claimed in excess of what was accrued. The outcome of the legal actions is not determinable at this time.

Commitments

	2008	2007
Approved, undisbursed loans	$59,250	$67,911
Reinsurance	9,229	16,742
Estimated farm loan incentives	7,400	11,929
Operating leases	740	858
Total commitments	$76,619	$97,440

The operating lease commitments are for accommodations with terms up to five years.

Note 14 Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss.

The following breakdown of the loan receivables provides an indication of the concentration of credit risk on the loan portfolio. Significant information is provided throughout these statements to disclose other concentrations of credit risk.

	2008	2007
Loans receivable by sector:		
Grain and Oilseeds	$ 469,071	$ 420,841
Cattle	365,791	338,593
Other Livestock	60,404	48,599
Manufacturing	45,599	25,528
Accommodations and Other Services	45,458	72,508
Trade - Retail and Wholesale	31,184	24,546
Other	82,817	109,355
Allowance	(27,268)	(30,677)
	$ 1,073,056	$ 1,009,293

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 14 CREDIT RISK AND INTEREST RISK (CONTINUED)

(B) INTEREST RISK

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. The gap position presented in the following table is determined as at the close of business on March 31, 2008. The corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or full prior to the contractual maturity date. Therefore, the following position of AFSC Lending Operations may change significantly due to loan customer payment preferences and the corporation's risk management practices.

	Term to Maturity (1)				Not (2) Interest	2008	2007
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Rate Sensitive	Total	Total
Loan balances	$ 100,619	$ 324,178	$311,117	$339,798	$ (2,656)	$ 1,073,056	$1,009,293
Yield (3)	6.22%	6.13%	6.01%	5.52%	-	6.05%	6.33%
Notes payable							
Province of Alberta	$ 199,688	$ 412,703	$295,485	$ 88,227	$ 10,616	$1,006,719	$ 931,371
Yield (3)	4.79%	4.94%	4.58%	3.84%	-	4.81%	4.97%
Net gap	$ (99,069)	$ (88,525)	$ 15,632	$251,571	$ (13,272)	$ 66,337	$ 77,922

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 14 CREDIT RISK AND INTEREST RISK (CONTINUED)

(A) INTEREST RISK (CONTINUED)

The above gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity [1]				2008	2007
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
Bonds and debentures	$ 69,278	$ 197,674	$ 1,971	$ 5,540	$ 274,463	$ 291,553
Yield [3]	4.24%	4.28%	5.51%	5.13%	4.29%	4.24%
Corporate Securities	-	159,648	1	-	159,649	127,855
Yield [3]	-	4.56%	-	-	4.56%	4.27%
	69,278	357,322	1,972	5,540	434,112	419,408
Accrued interest	446	3,940	14	79	4,479	3,736
	$ 69,724	$ 361,262	$ 1,986	$ 619	$ 438,591	$ 423,144

(1) For loans, term to maturity reflects the period of time to the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual, annual installments or full repayment at maturity of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

(2) Includes general provisions, accrued interest, accrued beginning farmer incentive and unamortized loan discount.

(3) For notes payable, investments and loans, yield represents the rate which discounts future cash receipts to the carrying amount.

YEAR ENDED MARCH 31, 2008 (IN THOUSANDS)

NOTE 15 RELATED PARTY TRANSACTIONS

Sufficient information is provided throughout these statements to disclose significant related party transactions the corporation entered into, except for the following:

	2008	2007
Interest expense - Province of Alberta	$ 46,402	$ 45,135
Administration expense - Province of Alberta	1,710	508
Administration expense - Government of Canada	661	304

The corporation entered into an agreement to deliver the CAIS Inventory Transition Initiative (CITI) as an agent of the Government of Canada. The corporation paid $45,342 in CITI claims to eligible participants. The indemnities, administration expenses, and associated revenues are not included in the Statement of Operations. Included in Due from the Government of Canada is $944 for funding required to administer this program.

NOTE 16 CROP REINSURANCE FUNDS

The contributions, withdrawals and accumulated surplus positions of the Crop Reinsurance Fund of Alberta and Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(e)):

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	2008	2007	2008	2007
Opening surplus	$ 17,713	$ 14,399	$ 18,513	$ 15,265
Contributions	1,265	3,314	1,142	3,248
Closing surplus	$ 18,978	$ 17,713	$ 19,655	$ 18,513

NOTE 17 COMPARATIVE FIGURES

The 2007 figures have been reclassified and restated where necessary to conform to 2008 presentation.

Schedule of Operations
Year Ended March 31, 2008 (in thousands)

	2008	2007	2008	2007	2008
	Canadian Agricultural Income Stabilization	Canadian Agricultural Income Stabilization	Production Insurance	Production Insurance	Lending
		(Restated)		(Restated)	
Revenue:					
Premiums from insured persons	$ -	$ -	$ 114,452	$ 105,526	$ -
Interest	107	-	656	452	66,624
Contribution from Province of Alberta	146,654	424,349	108,667	182,020	1,989
Contribution from Government of Canada	28,055	146,216	102,504	93,330	-
Investment income	7,119	7,040	28,092	19,512	576
Fees and other income	10,020	12,734	62	67	1,704
	191,955	590,339	354,433	400,907	70,893
Expense:					
Indemnities	172,721	550,550	241,080	136,589	-
Administration (Schedule 2)	19,757	19,739	27,695	25,604	21,111
Interest	-	-	-	-	46,402
Reinsurance	-	-	15,000	16,271	-
Farm loan incentives	-	-	-	-	3,574
Provision for doubtful accounts and for losses (Note 13)	(1,978)	7,321	(363)	588	8,667
Selling commissions	-	-	-	-	-
	190,500	577,610	283,412	179,052	79,754
Surplus (deficit) for the year	1,455	12,729	71,021	221,855	(8,861)
Surplus at beginning of year	12,729	-	571,518	349,663	85,762
Surplus at end of year	$ 14,184	$ 12,729	$ 642,539	$ 571,518	$ 76,901

SCHEDULE 1

2007 Lending (Restated)	2008 Hail Insurance	2007 Hail Insurance (Restated)	2008 Other	2007 Other (Restated)	2008 Total	2007 Total (Restated) (Note 2(k))
$ -	$ 31,649	$ 26,886	$ -	$ -	$ 146,101	$ 132,412
67,710	98	89	113	6	67,598	68,257
3,478	-	-	4,506	3,402	261,816	613,249
	-	-	5,598	4,991	136,157	244,537
346	1,436	1,648	(27)	43	37,196	28,589
7,624	418	422	703	345	12,907	21,192
79,158	33,601	29,045	10,893	8,787	661,775	1,108,236
-	40,265	26,342	8,345	5,574	462,411	719,055
20,746	2,427	2,110	2,252	2,219	73,242	70,418
45,135	-	-	86	55	46,488	45,190
-	698	558	-	-	15,698	16,829
4,552	-	-	-	-	3,574	4,552
(5,494)	(132)	99	(4)	13	6,190	2,527
-	2,122	2,075	-	-	2,122	2,075
64,939	45,380	31,184	10,679	7,861	609,725	860,646
14,219	(11,779)	(2,139)	214	926	52,050	247,590
71,543	38,452	40,591	1,510	584	709,971	462,381
$ 85,762	$ 26,673	$ 38,452	$ 1,724	$ 1,510	$ 762,021	$ 709,971

Schedule of Administration Expense

Year Ended March 31, 2008 (in thousands)

Schedule 2

	2008		2007
	Budget (Note 3(a))	Actual	Actual (Restated)
Salaries and benefits (Note 11)	$ 47,378	$ 46,267	$ 40,599
Amortization of capital assets	7,600	7,382	6,814
Contracted services	1,512	4,078	11,212
Travel and training	4,305	4,002	3,739
Office accomodation costs	2,821	3,694	1,864
Stationery and supplies	1,464	2,581	1,658
Data processing	947	1,639	1,387
Advertising	819	1,010	752
Telecommunications	913	856	647
Postage and freight	648	520	487
Professional services	869	474	546
Directors' fees and expenses	520	362	286
Equipment, rental and maintenance	360	252	325
Miscellaneous	108	125	102
	$ 70,264	$ 73,242	$ 70,418

Year Ended March 31, 2008 (in thousands)

Schedule 3

	2008				2007
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chairman of Board	$ 78			$ 78	$37
Board members[4]	152			152	158
President and Managing Director	247	96	58	401	333
Executive/Vice-Presidents					
Vice-President, Finance	165	35	41	241	231
Vice-President, Lending Operations	165	25	40	230	219
Vice-President, Risk Management	165	43	40	248	219

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include bonuses, vacation payments and lump sum payments.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care allowance, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eight Board members during 2007/08 (eight in 2006/07).

AFSC Office Locations

AIRDRIE
97 East Lake Ramp NE
Airdrie, AB T4A 0C3
Phone: (403) 948-8543
Fax: (403) 948-1418

ATHABASCA
Provincial Building
100 - 4903 - 50th Street
Athabasca AB
T9S 1E2
Insurance Phone: (780) 675-4007
Lending Phone: (780) 675-8161
Fax: (780) 675-3827

BARRHEAD
PO Box 4533 (Insurance)
Provincial Building Main Floor
6203 - 49th Street
Barrhead AB
T7N 1A4
Insurance Phone: (780) 674-8282
Lending Phone: (780) 674-8216
Fax: (780) 674-8362

BROOKS
Provincial Building
220 - 4th Avenue W
Brooks AB
T1R 0G1
Phone: (403) 362-1262
Fax: (403) 362-8078

CALGARY
Deerfoot Atrium North
Suite 150 6815 - 8th Street NE
Calgary AB
T2E 7H7
Phone: (403) 297-6281
Fax: (403) 297-8461

CAMROSE
Bag 5000 Station M
4910 - 52nd Street
Camrose, AB
T4V 4E8
CAIS Analyst (780) 679-1319
Insurance Phone: (780) 679-1739
Lending Phone: (780) 679-1229
Fax: (780) 679-1758

CARDSTON
PO Box 1228
Provincial Building
576 Main Street
Cardston AB
T0K 0K0
Insurance Phone: (403) 653-5154
Lending Phone: (403) 653-5138
Fax: (403) 653-5156

CASTOR
PO Box 719
4902 - 50th Avenue
Castor AB
T0C 0X0
Insurance Phone: (403) 882-3770
Fax: (403) 882-2746

CLARESHOLM
PO Box 1227
Provincial Building
109 - 46th Avenue W
Claresholm AB
T0L 0T0
Insurance Phone: (403) 625-3534
Lending Phone: (403) 625-1462
Fax: (403) 625-2862

DRUMHELLER
Box 2319
100 - 515 Highway 10 E
Drumheller AB
T0J 0Y0
CAIS Analyst: (403) 823-1696
Insurance Phone: (403) 823-1684
Lending Phone: (403) 823-1677
Fax: (403) 823-5083

EDMONTON
Room 100
J.G. O'Donoghue Building
7000-113 Street
Edmonton, Alberta T6H 5T6
Lending Phone: (780) 415-1216
Fax: (780) 415-1218

EDSON
PO Box 11
Provincial Building
Edson, AB
T7E 1T2
Lending Phone: (780) 723-8233
Fax: (780) 723-8575

FAIRVIEW
Box 1188
Provincial Building 2nd Floor
10209 - 109th Street
Fairview AB
T0H 1L0
CAIS Analyst (780) 835-2295
Phone: (780) 835-4975
Fax: (780) 835-5834

FALHER
PO Box 658
M.D. Building
701 Main Street
Falher AB
T0H 1M0
Phone: (780) 837-2521
Fax: (780) 837-8223

FOREMOST
Box 37
MSG Investment Building
218 Main Street
Foremost AB
T0K 0X0
Insurance Phone: (403) 867-3666
Fax: (403) 867-2038

FORT VERMILION
PO Box 487
4601 - 46 Avenue
Fort Vermilion AB
T0H 1N0
Insurance Phone (780) 927-4209
Lending Phone: (780) 927-3715
Fax: (780) 927-3838

GRANDE PRAIRIE
Provincial Bldg.
3401 - 10320 - 99th Street
Grande Prairie, AB
T8V 6J4
CAIS Analyst: ((780) 538-5234
Lending Phone: (780) 538-5220
Insurance Phone (780) 538-5355
Fax: (780) 532-2560

GRIMSHAW
Box 802
5306 - 50th Street
Grimshaw AB
T0H 1W0
Phone: (780) 332-4494
Fax: (780) 332-1044

HANNA
Box 7 (Insurance)
Box 349 (Lending)
Provincial Building
401 Centre Street
Hanna AB
T0J 1P0
Insurance Phone: (403) 854-5525
Lending Phone: (403) 854-5505
Fax: (403) 854-2590

HIGH PRAIRIE
Provincial Building
PO Box 1259
5226 - 53rd Avenue
High Prairie AB
T0G 1E0
Insurance Phone: (780) 523-6507
Fax: (780) 523-6569

HIGH RIVER
Box 5208
129 - 4th Avenue SW
High River AB
T1V 1M4
Phone: (403) 652-8313
Fax: (403) 652-8306

LACOMBE CENTRAL OFFICE
5718 - 56 Avenue
Lacombe, Alberta
T4L 1B1
Phone: (403) 782-8200

LACOMBE DISTRICT OFFICE
Bay 105 - 4425 Heritage Way
Lacombe, AB
Mail: 5718 - 56 Avenue
Lacombe AB
T4L 1B1
Insurance Phone: (403) 782-6800
Fax: (403) 782-6753

LAMONT
PO Box 487
5014 - 50th Avenue
Lamont AB
T0B 2R0
Insurance Phone: (780) 895-2266
Lending Phone: (780) 895-2459
Fax: (780) 895-7755

LEDUC
6547 Sparrow Drive
Leduc AB
T9E 7C7
Phone: (780) 986-4088
Fax: (780) 986-1085

LETHBRIDGE
County of Lethbridge Building
Unit 200 - 905 - 4th Ave S.
Lethbridge AB
T1J 0P4
CAIS Analyst: (403) 382-4383
Insurance Phone: (403) 381-5240
Lending Phone: (403) 381-5102
Fax: (403) 381- 4527

MANNING
PO Box 147
116 - 4th Avenue SW
Manning AB
T0H 2M0
Insurance Phone: (780) 836-3573
Fax: (780) 836-2844

MEDICINE HAT
Provincial Building
Bay 111 - 7 Strachan Bay SE
Medicine Hat, AB
T1B 4Y2
CAIS Analyst (403) 488-4507
Insurance Phone (403) 488-4509
Lending Phone: (403) 488-4508
Fax (403) 488-4516

OLDS
Provincial Building
101 - 5030 - 50th Street
Olds AB
T4H 1S1
CAIS Analyst (403) 556-4263
Phone: (403) 556-4334
Fax: (403) 556-4255

OYEN
Box 426
201 Main Street
Oyen AB
T0J 2J0
Insurance Phone: (403) 664-3677
Fax: (403) 664-2687

PEACE RIVER
Bag 900 -23
9809 - 98th Avenue
Peace River, AB
T8S 1J5
Phone: (780) 624-6387
Fax: (780) 624-6493

PONOKA
PO Box 4426
Provincial Building
250 - 5110 - 49th Avenue
Ponoka AB
T4J 1S1
CAIS Analyst Phone (403) 783-7040
Insurance Phone: (403) 783-7071
Lending Phone: (403) 783-7011
Fax: (403) 783-7925

PROVOST
PO Box 716
Provincial Building
5419 - 44th Street
Provost AB
T0B 3S0
Phone: (780) 753-2150
Fax: (780) 753-2876

RED DEER
Provincial Building
302 - 4920 - 51st Street
Red Deer AB
T4N 6K8
Insurance Phone: (403) 340-5379
Insurance Fax: (403) 340-7999
Lending Phone: (403) 340-5326
Lending Fax: (403) 340-7004

RIMBEY
Box 888
Provincial Building
5025 - 55th Street
Rimbey AB
T0C 2J0
Phone: (403) 843-4516
Fax: (403) 843-4150

SEDGEWICK
PO Box 266
Flagstaff County Building
4902 - 50th Street
Sedgewick AB
T0B 4C0
Insurance Phone: (780) 384-3880
Fax: (780) 384-2156

SMOKY LAKE
Box 602
Provincial Building
108 Wheatland Avenue
Smoky Lake AB
T0A 3C0
Insurance Phone: (780) 656-3644
Fax: (780) 656-3669

SPIRIT RIVER
PO Box 547
Provincial Building
1st Floor 4602 - 50th Street
Spirit River AB
T0H 3G0
Phone: (780) 864-3896
Fax: (780) 864-2529

AFSC Office Locations

ST. PAUL
Provincial Building
Box 406
5025 - 49th Avenue
St. Paul AB
T0A 3A4
Insurance Phone: (780) 645-6221
Lending Phone: (780) 645-6453
Fax: (780) 645-2848

STETTLER
Box 1807 (Insurance)
Bag 600 (Lending)
Provincial Building
4705 - 49th Avenue
Stettler AB
T0C 2L0
Insurance Phone: (403) 742-7536
Lending Phone: (403) 742-7904
Fax: (403) 742-7911

STONY PLAIN
Provincial Building
4709 - 44th Avenue
Stony Plain AB
T7Z 1N4
CAIS Analyst (780) 968-4952
Insurance Phone: (780) 963-0600
Lending Phone: (780) 963-4720
Fax: (780) 963-1251

STRATHMORE (includes Blackfoot Reserve)
325 - 3rd Avenue
Strathmore AB
T1P 1B4
CAIS Analyst (403) 361-9637
Phone: (403) 934-3616
Fax: (403) 934-5018

TABER
Provincial Building
Box 4 - 5011 - 49th Avenue
Taber AB
T1G 1V9
Insurance Phone: (403) 223-7900
Lending Phone: (403) 223-7920
Fax: (403) 223-7985

THORHILD
Box 400
County Administration Building
801 - 1st Street
Thorhild AB
T0A 3J0
Insurance Phone: (780) 398-3933
Fax: (780) 398-2087

THREE HILLS
PO Box 40
Provincial Building
160 - 3rd Avenue S
Three Hills AB
T0M 2A0
Insurance Phone: (403) 443-8515
Lending Phone: (403) 443-8510
Fax: (403) 443-7519

VALLEYVIEW
PO Box 1046
Provincial Building
5112 - 50th Avenue
Valleyview AB
T0H 3N0
Insurance Phone: (780) 524-3838
Fax: (780) 524-4565

VEGREVILLE
PO Box 1440
Vinet's Village Mall
Suite 138 4925 - 50th Avenue
Vegreville AB
T9C 1S6
Phone: (780) 632-5431
Fax: (780) 632-3385

VERMILION
Box 10
Provincial Building
4701 - 52nd Street
Vermilion AB
T9X 1J9
CAIS Analyst (780) 853-8238
Phone: (780) 853-8266
Fax: (780) 853-1982

VULCAN
PO Box 847
102 - 1st Street S
Vulcan AB
T0L 2B0
Insurance Phone: (403) 485-2766
Lending Phone: (403) 485-5141
Fax: (403) 485-2947

WAINWRIGHT
Provincial Building
Unit 1 - 810 - 14th Avenue
Wainwright AB
T9W 1R2
Insurance Phone: (780) 842-7547
Lending Phone: (780) 842-7542
Fax: (780) 842-4948

WESTLOCK
Provincial Building
2 - 10003 - 100th Street
Westlock AB
T7P 2E8
CAIS Analyst (780) 349-6253
Insurance Phone: (780) 349-4544
Lending Phone: (780) 349-4529
Fax: (780) 349-5240

Eco Audit

unisource

Unisource Canada, Inc.
Fine Paper Division
6040 11 Street. NE
Calgary, AB T2E 9B1
403.219.0430

Your company uses Environmentally Responsible Papers.

By choosing 25% Post Consumer Recycled fiber instead of virgin paper for **your project**, the following savings to our natural resources were realized;

Trees Saved	**Wastewater (Water Saved gals.)**
2.51	**1066**
Solid Waste (Landfill Reduced Lbs.)	**Net Greenhouse Gases Prevented (Lbs.)**
118	**232**
Energy Not Consumed (million BTU'S)	**Waterborne waste not created (gals.)**
1,777,407	**7.25**

Above information is based on use of the following products:
1432 sheets of ChorusArt Silk Cover 100lb 19 x 25
5833 sheets of ChorusArt Silk Text 80lb 25 x 38

Data research provided by www.epa.gov and www.environmentaldefence.org